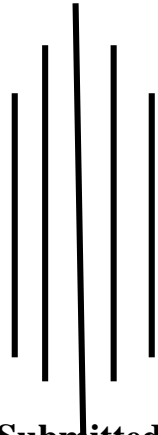


**A STUDY ON  
PROFIT PLANNING MECHANISM AND ITS PROGRESS  
STATUS  
OF  
NEPAL TELECOM**



**Submitted By:**

**RAJ KUMAR NEUPANE**

**Roll No: 182/063**

**T.U. Registration No: 7-1-2-1382-2000**

**Exam Roll No: 2467**

**Thesis Submitted to:**

**Office of the Dean**

**Faculty of Management**

**Tribhuvan University**

**Shanker Dev Campus, Putalisadak, Kathmandu**

**In partial fulfillment for the requirement of the Degree of Master of**

**Business Studies (M.B.S.)**

**Kathmandu, Nepal**

**March, 2010**

## **RECOMMENDATION**

This is to certify that the Thesis  
Submitted by

**RAJ KUMAR NEUPANE**

**Roll No: 182/063**

**T.U. Registration No: 7-1-2-1382-2000**

**Exam Roll No: 2467**

Entitled:

A Study on Profit Planning Mechanism and Its Progress Status of Nepal Telecom has been prepared as approved by this department in the prescribed format of Faculty of Management. This Thesis is forwarded for examination.

---

**Joginder Goet**  
Thesis Supervisor

---

**Prof. B. M. Shrestha**  
Head of Research Department

---

**Prof. Dr. K. D. Dhakal**  
Campus Chief

## **VIVA-VOCE SHEET**

We have conducted the viva-voce examination of the thesis presented by

**RAJ KUMAR NEUPANE**

**Roll No: 182/063**

**T.U. Registration No: 7-1-2-1382-2000**

**Exam Roll No: 2467**

Entitled:

A Study on Profit Planning Mechanism and Its Progress Status of Nepal Telecom and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for Master's Degree in Business Studies (M.B.S)

### **Viva-Voce Committee**

Head of Research Department: .....

Member (Thesis Supervisor): .....

Member (External Expert): .....

## **DECLARATION**

I hereby declare that the worked reported in this thesis entitled Profit Planning Mechanism and Its Progress Status of Nepal Telecom submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment for the requirement of Master's Degree in Business Studies (MBS) under the supervision of Lecturer Joginder Goet of Shanker Dev Campus.

**RAJ KUMAR NEUPANE**  
**Researcher**  
**Campus Roll No: 182/063**  
**TU Regd. No: 7-1-2-1382-2000**

## **ACKNOWLEDGEMENT**

This term paper has been prepared as partial requirement for the Master's Degree in Business Studies. I am grateful to all those who have been a source of encouragement to complete this term paper. I am highly indebted to my friends, colleagues and teachers at Shanker Dev Campus for their important suggestions and necessary support. I express my profound gratitude to my supervisor Joginder Goiet for his valuable guidance, suggestions, support and inspiration to complete this research. I thank immensely all the staff of Nepal Telecom; specially Mr. Amarnath Singh, Managing Director of NTC, Mr. Pradhumna Sharma, Asst. Business Officer and Mr. Kusmakhar Neupane, Financial Planning Dept. of NTC for providing necessary data of NTC required to do the research work. I am especially thankful to all respondent concern with this research and valuable advice during my work.

I also would like to express my sincere gratitude to my friend Durga Luitel and other friends for their consistent inspiration to complete this research. I am thankful to my family members who inspire and support me to do such research. And I am indebted to all the friends and supporters who help me to prepare such research.

**RAJ KUMAR NAUPANE**  
Researcher  
Shanker Dev Campus

# Table of Contents

## CHAPTER-I

	<b>Page No.</b>
<b>1. INTRODUCTION</b>	<b>1-11</b>
1.1 Background of the study	1- 2
1.2 Brief profile of Nepal Telecom Limited	2
1.2.1 Company's Introduction	2 - 3
1.2.2 Objectives of the Company	3 - 4
1.2.3 Products of the Company	4 - 7
1.2.4 Role of Nepal Telecom	7
1.3 Statement of the Problem	7 - 8
1.4 Objective of the Study	9
1.5 Significance of the Study	9
1.6 Limitations of the Study	10
1.7 Organization of the Study	10 - 11

## CHAPTER-II

<b>2. REVIEW OF LITERATURE</b>	<b>12-70</b>
2.1 Concept of Profit Planning	12 - 13
2.1.1 Components of Profit Planning	13 - 18
2.1.1.1 Profit	13 - 14
2.1.1.2 Planning	14 - 16
2.1.1.3 Basic Assumptions and Limitations of Profit Plan	16 - 17
2.1.1.4 Implementation of Profit Plan	17 - 18
2.2 Budgeting as a tool of profit planning	18 - 19
2.3 Forecasting	19 - 22
2.3.1 Level of Forecasting	20 - 22
2.4 Forecasting and Planning	22 - 24
2.4.1 The Role of Forecasting in Planning	23 - 24
2.5 Budgeting and Budgetary Control: As a Tool of Profit Planning	24 - 31

2.5.1 Advantages of Budgeting and Budgetary Control	26 - 27
2.5.2 Objectives of Budgets and Budgetary Control	27 -28
2.5.3 Limitations of Budgeting	28 -29
2.5.4 Essentials of an Effective Budgeting	29 - 31
2.6 Types of Budget	31 - 32
2.7 Fundamental of Profit Planning and Control Program	32 - 37
2.8 Components of Comprehensive Profit Planning & Control	37 - 40
2.9 Merits of Profit Planning and Control	41
2.10 Basic Assumptions of Profit Planning & Control	41 -42
2.11 Limitations or Problems of PPC	42
2.12 Development of Profit Plan	42 - 57
2.12.1 Sales Budget or Sales Plan	43 - 44
2.12.1.1 Sales Planning and Forecasting	44 - 45
2.12.1.2 Development of Comprehensive Sales Plan	45
2.12.2 Production Plan / Budget	45 - 46
2.12.3 Material Budget and Material Purchase Plan/Budget	46 - 48
2.12.4 Direct Labour Budget	48
2.12.5 Overhead Budget	48 - 50
2.12.5.1 Meaning of Overhead	48 - 49
2.12.5.2 Types of Overhead	49 -50
2.12.6 Administrative Expenses Budget	50
2.12.7 Selling & Distribution Expenses Budget	51
2.12.8 Capital Budgeting	51- 55
2.12.8.1 Meaning	51 - 52
2.12.8.2 Importance of Capital Budgeting	52
2.12.8.3 Methods of Measuring Economic Value of Capital Expenditure	52 - 55
2.12.9 Planning of Cash	55 - 56
2.12.9.1 The Primary Purpose of Cash Budget	55
2.12.9.2 Techniques for Improving Cash Flow	56
2.12.10 Budgeted Income Statement	56 -57
2.12.11 Budgeted Balance Sheet	57

2.13 Flexible Budget	57 - 58
2.13.1 Meaning	57
2.13.2 Features of Flexible Budgeting	57 -58
2.13.3 Flexible Budget Format	58
2.14 Control Process of Profit Plan	58 - 60
2.14.1 Performance Report	59
2.14.2 Analysis of Variances (Budget Variances)	59 - 60
2.15 Review of Related Studies	60 - 69
2.16 Research Gap	70

## **CHAPTER -III**

### **3. RESEARCH METHODOLOGY 71-74**

3.1 Research Design	71- 72
3.2 Population and Sample	72
3.3 Sources of Data	72 - 73
3.4 Data Collection Technique	73
3.5 Data Analysis Tools	73 - 74
3.5.1 Statistical Tools	74
3.5.2 Financial Tools	74
3.6 Research Variables	74

## **CHAPTER – IV**

### **4. PRESENTATION AND ANALYSIS OF DATA 75-133**

4.1. Presentation & Analysis of Financial Data	75
4.2 Sales Budget of NTC	76 - 77
4.2.1 Statistical Presentation of Budgeted & Actual Sales	77 -78
4.2.2 Trend Analysis	78 -79
4.2.3 Presentation of Actual & Budgeted Sales	79 -80
4.2.4 The Revenues Contribution of Different Service Products in FY 2064/065	80 - 82
4.3 Ratio Analysis	82 - 123
4.3.1 Liquidity Ratios	82 - 87
4.3.1.1 Current Ratio (CR)	82 - 85



4.3.1.2 Quick Ratio/Acid Test Ratio	85 - 87
4.3.2 Turnover Ratios / Activity Ratios	87 - 104
4.3.2.1 Inventory Turnover Ratio (ITR)	87 - 89
4.3.2.2 Average Age of Inventory	89 - 90
4.3.2.3 Debtors Turnover Ratio (DTR)	90 - 92
4.3.2.4 Average Collection Period (ACP)	92 - 93
4.3.2.5 Total Assets Turnover Ratio (TATOR)	93 - 96
4.3.2.6 Fixed Assets Turnover Ratio (FATR)	96 - 98
4.3.2.7 Working Capital Turnover Ratio (WCT)	98 - 100
4.3.2.8 Capital Employed Turnover Ratio (CET)	100 - 103
4.3.3 Leverage Ratios	103 - 111
4.3.3.1 Total Debt Ratio (TDR)	103 - 105
4.3.3.2 Debt Equity Ratio (DE)	105 - 107
4.3.3.3 Long Term Debt to Capital employed ratio (LTD TO CE)	107 - 108
4.3.3.4 Interest Coverage Ratio(IC)	108 - 111
4.3.4 Profitability Ratios	111- 122
4.3.4.1 Net Profit Margin (NPM)	111 - 114
4.3.4.2 Operating Expenses Ratio (OE)	114 - 116
4.3.4.3 Return on Assets Ratio (ROA)	116 - 118
4.3.4.4 Return on Capital Employed (ROCE)	118 - 120
4.3.4.5 Return on Equity (ROE)	120 - 122
4.4 Statistical Analysis	122 - 130
4.4.1 Correlation and Regression Analysis	123 - 130
4.4.1.1 Correlation & Regression analysis of Gross Domestic Product (GDP) and Sales Revenue	123 - 125
4.4.1.2 Correlation & Regression Analysis of Investments (Total Assets) and Profit	125 - 127
4.4.1.3 Correlation & Regression Analysis of Sales Revenue and Total Cost	127 - 128
4.4.1.4 Correlation & Regression Analysis of Sales Revenues and Profit	129 - 130
4.5 Major findings of the Study	130 - 133

## **CHAPTER – V**

<b>5. SUMMARY, CONCLUSION AND RECOMMENDATIONS</b>	<b>134-139</b>
5.1 Summary	134 - 136
5.2 Conclusions	137 - 141
5.3 Recommendations	141 - 143
Bibliography	
Appendix	

## List of Tables

S.N.	Particulars	Page No.
4.1	Budgeted & Actual Sales & Their Variances	77
4.2	Mean S.D. & CV of Budgeted & Actual Sales	78
4.3	Sales/ Revenue Contribution of Different Service Products in 2064/065	80
4.4	Current Assets & Current Liabilities & Current Ratio with Trend Values	83
4.5	Quick Assets & Quick Ratio with Trend Values	85
4.6	Calculation of Inventory Turnover Ratio & Its Trend Values	87
4.7	Calculation of Average Age of Inventory	89
4.8	Calculation of Debtor Turnover Ratio & Its Trend Values	90
4.9	Calculation of Average Collection Period	93
4.10	Calculation of Total Assets Turnover Ratio & Its Trend Values	94
4.11	Calculation of Fixed Assets Turnover Ratio & Its Trend Values	96
4.12	Calculation of Working Capital Turnover Ratio & Its Trend Values	99
4.13	Calculation of Capital Employed Turnover Ratio & Its Trend Values	101
4.14	Calculation of Total Debt Ratio & its Trend Values	103
4.15	Calculation of Debt to Equity Ratio and Its Straight Line Trend Value	106
4.16	Calculation of Long Term Debt to Capital Employed Ratio	107
4.17	Calculation of Interest Coverage Ratio and Its Trend Equation	109
4.18	Calculation of Net Profit Margin Ratio and its Straight Line Trend Value	112
4.19	Calculation of Operating Expenses Ratio and its Straight Line Trend Equation	114
4.20	Calculation of Return on Assets Ratio and its Straight Line Trend Equation	117
4.21	Calculation of Return on Capital Employed Ratio and its Straight Line Trend	119
4.22	Calculation of Return on Equity Ratio and its Straight Line Trend Equation	121
4.23	Computation of Correlation & Regression Co - efficient between GDP & Sales Revenue	123
4.24	Computation of Correlation & Regression Co - efficient between investment(Total Assets) & Profit	125
4.25	Calculation of Correlation Coefficient & Regression Coefficient of Total Cost and Total Sales	127
4.26	Calculation of Correlation Coefficient & Regression Coefficient of Sales Revenue and Profit	129

## **List of Figures**

<b>S.N</b>	<b>Particulars</b>	<b>Page No</b>
4.1	Budgeted & Actual Sales Trend	79
4.2	Budgeted & Actual Sales Relationship	79
4.3	Revenue/ Sales Contribution of Different Service Products in 2064/065	81
4.4	Actual Sales/ Revenue Contribution of Different Service Products	81
4.5	Current Ratio Straight Line Trend Equation	84
4.6	Current Assets & Current Liabilities	85
4.7	Straight Line Trend Presentation of Quick Ratio	87
4.8	Inventory Turnover Ratio Trend Line	88
4.9	Operating Sales & Receivables Relationship	91
4.10	Debtor Turnover Ratio Trend	92
4.11	Total Sales & Total Assets Relationship	95
4.12	Total Assets Turnover Ratio Trend Line	95
4.13	Operating Sales & Net Fixed Assets Relationship	97
4.14	Fixed Assets Turnover Ratio Trend Line	98
4.15	Working Capital Turnover Ratio Trend	100
4.16	Total Sales and Capital Employed Relationship	102
4.17	Capital Employed Turnover Trend Line	102
4.18	Total Assets and Total Debt Relationship	104
4.19	Total Debt Ratio Trend Line	105
4.20	Total Debt and Total Equity Relationship	107
4.21	Long Term Debt and Capital Employed	108
4.22	EBIT and Interest	110
4.23	Interest Coverage Ratio Trend Line	110
4.24	Total Sales and Net Profit Relationship	113
4.25	Net Profit Margin Ratio Trend Line	113
4.26	Operating Expenses and Sales Revenue Relationship	115
4.27	Operating Expenses Ratio Trend Line	116
4.28	Return on Assets Trend Line	118
4.29	Return on Capital Employed Ratio Trend Line	120

